



Controller John Chiang
California State Controller's Office

300 Capitol Mall
Sacramento, CA
95814

916.445.2636

www.controller.ca.gov

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Contact: Jacob Roper

916-445-2636

Controller Issues Redevelopment Findings

SACRAMENTO – State Controller John Chiang today released the results of a five-week, limited-scope review of 18 redevelopment agencies (RDAs) across the State of California. The Controller found no reliable means to measure the impact of redevelopment activity on job growth because RDAs either do not track them or their methodologies lack uniformity and are often arbitrary. The review exposes the difficulty of holding RDAs accountable for their funding decisions when existing legal standards are so loose that any area can be deemed “blighted.”

The report also identified several missed payments to school districts and widespread accounting and reporting deficiencies, questionable payroll practices, substandard audits, faulty loans, and inappropriate use of affordable housing funds.

“For a government activity which consumes more than \$5.5 billion of public resources annually, we should be troubled that there are no objective performance measures demonstrating that taxpayers are receiving optimal return for each invested dollar,” said Controller Chiang. “Locally-controlled economic development is vital to California’s long-term prosperity. However, the existing approach – born in the 1940’s – is not how anyone concerned with performance, efficiency, and accountability would draw it up today.”

The 18 selected agencies represent 16 percent of all redevelopment dollars in fiscal year 2009-10. Auditors from the Controller’s office conducted the review by interviewing redevelopment staff and analyzing financial statements, reports, plans, budget documents, ledgers, job creation data, and payroll records.

The report notes that the 18 RDAs share no consensus in defining a blighted area. While run-down sections of Los Angeles with abandoned buildings show obvious need for redevelopment, other cities were far broader in their declaration of blight. Coronado’s redevelopment area covers every privately-owned parcel in the city, including multi-million dollar beachfront homes. In Palm Desert, redevelopment dollars are being used to renovate greens and bunkers at a 4.5 star golf resort. That RDA receives the 10th-highest tax revenue in the State, with a fund balance worth \$4,666 for each of the city’s 52,000 residents.

Only 10 of the 18 RDAs attempted to track the number of jobs created by their projects. Of those ten agencies, four could provide no methodology or explanation for their figures. The remaining six all used different methods to find the number of jobs created. The County of Riverside used projections from developers, while the City of Desert Hot Springs looked at permit and employment records.

Employee compensation levels for RDAs were largely consistent with the salary and

benefits offered to other local government employees. But the report found that redevelopment dollars often went to city or county payroll without evidence that those dollars actually supported redevelopment services. In the City of Pittsburg, the redevelopment agency signed a service agreement with the city and transferred \$3 million to the city's general fund. But no documentation exists to show that the \$3 million actually went to redevelopment services.

Five of the 18 RDAs failed to make \$33.6 million in required payments to schools within their redevelopment areas. When RDAs fail to make these payments, it increases the State General Fund's financial obligations to local school districts. While RDAs are able to borrow funds in order to make these school payments, none of the five agencies attempted to do so.

While all the RDAs made the required deposits into their Low & Moderate Housing funds, the review found that many of them made inappropriate charges to this account that were not directly related to affordable housing, as required by the State's Health and Safety Code.

- The City of Los Angeles inappropriately charged 20 percent of its redevelopment administration costs to the fund (amounting to \$833,000).
- The City of Calexico also charged a percentage of its administrative costs, but also charged the fund for code enforcement and the cost of performing audits of the RDA.
- The City of Desert Hot Springs inappropriately charged \$162,000 for "code enforcement."
- The City of Parlier inappropriately charged the cost of purchasing a daycare center.
- The City of Hercules inappropriately charged \$9,600 of its lobbyist expenses.

None of the 18 reviewed agencies met all of their filing requirements. In some cases, annual financial reports were fed to the RDA governing bodies in pieces, while others simply did not file. Auditors from the Controller's office found that many of the RDAs' department staff were confused by filing requirements, and the report recommends strong training improvements for financial staff. The report also found that independent audits often failed to identify major audit violations and did not include all required information.

"The lack of accountability and transparency is a breeding ground for waste, abuse, and impropriety," said Controller Chiang. "In whatever form local redevelopment takes in the future, the level of oversight and openness must be consistent with the amount of public dollars entrusted to their care."

Two of the RDAs made questionable loans to their cities' general fund. In Pittsburg, the agency loaned \$16.6 million in fiscal year 2009-10 without interest to the city for specified projects. By the end of the fiscal year, \$15.4 million was unspent, allowing the city to earn interest on those funds. The City of Calexico's RDA loaned \$1.75 million to the city in 1993 with six percent interest. The City Council, acting as the RDA board, lowered the interest rate to 1.42 percent in 2004. While the loan was supposed to be fully repaid by 2009, the city still owes \$1.1 million to the redevelopment fund, based on information provided to the State Controller's office.

The [full report](#) can be found on the State Controller's website at www.sco.ca.gov.

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